



**EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503**

April 22, 2008
(House Rules)

STATEMENT OF ADMINISTRATION POLICY

H.R. 5819 – SBIR/STTR Reauthorization Act

(Rep. Velazquez (D) New York and two cosponsors)

The Administration supports ensuring that small businesses have full and fair opportunities for providing services to the Federal Government and for competing to provide research and development. However, the Administration strongly opposes H.R. 5819 because its higher set-asides for the Small Business Innovation Research (SBIR) and the Small Business Technology Transfer (STTR) programs, which would be funded through a levy on agencies' external research budgets, would effectively cut \$650 million each year from the core, competitive research activities of the Department of Defense, the National Institutes of Health, NASA, the Department of Energy, the National Science Foundation, and other agencies. The Administration strongly opposes reducing funds available for priority agency research activities at universities and Federal laboratories in order to provide subsidies for business development. In addition, reducing these funds directly undermines efforts by the Administration, Congress, and a broad coalition of business and academic leaders to enhance the Nation's competitiveness through increased support for high-priority basic research activities.

The Federal Government currently spends approximately \$140 billion annually on direct procurement and subcontracts from small businesses; these purchases have grown by more than 50 percent under this Administration. The contracts and awards include over \$2.3 billion annually through the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. As a consequence of the President's strong proposed research funding increases, SBIR and STTR awards and contracts for small business would continue to grow.

H.R. 5819 would expand the \$2.1 billion SBIR program by 20 percent – more than \$400 million – and would double the STTR program to approximately \$500 million. The Administration does not support increasing these set-asides given the current absence of systematic performance measures that demonstrate results beyond anecdotal successes. The Administration believes that the focus should be on improving the productivity of and performance metrics for the substantial current spending for the SBIR and STTR programs, rather than increasing diversion of funds from high priority, competitively conducted Federal research.

H.R. 5819 contains several other provisions that are of serious concern to the Administration. In particular, the Administration believes that H.R. 5819 goes too far in relaxing constraints on venture capital ownership of firms receiving SBIR and STTR funds, which could lead to inappropriate subsidization of well-capitalized businesses that do not warrant funding through a set-aside program. The Administration is reviewing whether venture capital funding of businesses receiving SBIR and STTR funds could be expanded through reforms of Small

Business Administration (SBA) regulations without inappropriately providing Federal commercialization subsidies to well-capitalized businesses.

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